



Codorus Valley Bancorp, Inc.

*Larry J. Miller
Vice Chairman, President and
Chief Executive Officer*

February 1, 2012

Dear Shareholder,

As we continue to be challenged by current economic conditions, I am pleased to report record high earnings for the fourth quarter, an increase in annual earnings and continued balance sheet growth. Accomplishments during the year 2011 included: expansion of the banking franchise through the addition of our eighteenth financial center in the Westminster area of Carroll County, Maryland; the addition of Tier 1 capital, i.e., preferred stock, through participation in the U.S. Department of the Treasury's (Treasury) Small Business Lending Fund Program (SBLF Program), which we will continue to leverage by making loans to creditworthy businesses and at the same time lower the dividend rate on the preferred stock issued under this program; the redemption of all outstanding preferred stock and related stock warrants issued to the Treasury under its Capital Purchase Program; increasing annual cash dividends from \$0.25 per common share to \$0.35 per common share—a 40 percent increase; and continued balance sheet growth whereby the Company exceeded \$1 billion in total assets enabling it to benefit from economies of scale.

We welcomed Cynthia A. Dotzel, CPA and Jeffrey R. Hines, P.E. to the Boards of Directors of the Company and Bank in November 2011. Ms. Dotzel currently serves as Principal and practicing CPA for SF & Company, CPAs and Business Advisors. Mr. Hines currently serves as President and Chief Executive Officer of The York Water Company. Both Ms. Dotzel and Mr. Hines are highly regarded and well known to the business community, and are actively involved in leadership roles with many civic and charitable organizations throughout the area.

Last month, Harry R. "Ron" Swift, Esq., joined the Boards of Directors of the Corporation and Bank. Mr. Swift has served as General Counsel and Secretary to the Corporation and Bank since his employment began in October 1997. Ron is also a director of the York County YMCA and Trustee of Albright Care Services.

We are delighted that Cindy, Jeff and Ron have joined our Company as directors and we look forward to their counsel and leadership.

Net income available to common shareholders (earnings) totaled \$2,423,000 or \$0.58 per share, basic and diluted, for the quarter ended December 31, 2011, compared to the \$847,000 or \$0.21 per share, basic and diluted, for the quarter ended December 31, 2010. For the full year 2011, net income available to common shareholders totaled \$5,319,000 or \$1.28 per share, \$1.27 diluted, compared to \$5,228,000 or \$1.28 per share, basic and diluted, for the year 2010.

The \$1,576,000 or 186 percent increase in the fourth quarter earnings for 2011 compared to the fourth quarter of 2010 was the result of an increase in net interest income and decreases in the provision for loan losses and total noninterest expense, which more than offset an increase in income tax expense. Explanations for these increases and decreases are similar to those provided for the annual earnings comparison in the paragraph that follows, with the exception of the provision for loan losses, which can vary materially from quarter to quarter

The \$91,000 or 2 percent increase in annual earnings for the year 2011 compared to the year 2010 was primarily the result of an increase in net interest income and a decrease in total noninterest expense, which more than offset increases in the provision for loan losses, income tax expense and preferred stock dividends and discount accretion. The \$2,179,000 or 7 percent increase in net interest income resulted primarily from a larger volume of earning assets, principally commercial loans and investment securities, and a decrease in funding costs. The decrease in funding costs resulted from a lower volume of borrowings, a larger proportion of low cost core deposits to total deposits and lower rates generally paid on all deposit products, which reflected unusually low market interest rates. The \$1,037,000 or 4 percent decrease in total noninterest expense resulted primarily from a decrease in net costs and losses attributable to foreclosed real estate and impaired loans. The \$1,945,000 or 65 percent increase in the provision for loan losses reflected losses on various commercial loan relationships as previously reported. The prolonged weakness in business and economic conditions, the high level of unemployment and the erosion of real estate values continue to adversely affect credit quality for the financial services industry. The \$484,000 or 43 percent increase in income tax expense was primarily driven by the 14 percent increase in the level of income before income taxes. The \$480,000 or 49 percent increase in preferred stock dividends and discount accretion was primarily attributable to a non-recurring \$379,000 transaction to remove unamortized discount caused by the redemption of all outstanding preferred stock issued to the Treasury under its Capital Purchase Program. The remaining increase in dividends was caused by an increase in outstanding preferred stock, which reflected the Company's participation in the Treasury's SBLF Program during August 2011, as previously reported.

On December 31, 2011, total assets were approximately \$1,012,000,000 representing a \$55,000,000 or 6 percent increase above December 31, 2010. Compared to one year ago, asset growth occurred primarily in the commercial loan portfolio and, to a lesser degree, the investment securities portfolio. Asset growth was funded primarily by an increase in core deposits and, to a lesser degree, an \$8 million addition to capital obtained via the SBLF program. Additional financial information follows this letter.

In other news, on January 11, 2012, Codorus Valley's Board of Directors declared a regular quarterly cash dividend of \$0.09 per common share, payable on or before February 14, 2012, to shareholders of record on January 24, 2012. If you do not participate in the Company's Dividend Reinvestment and Stock Purchase Plan, your dividend check is enclosed. The Board of Directors regularly reviews the dividend policy and can be expected to approve future changes to it as they deem necessary and appropriate.

On behalf of the Board of Directors, the Leadership Team, and all who serve our clients on a daily basis, thank you for your investment in Codorus Valley Bancorp, Inc. and your continued confidence.

Sincerely,

A handwritten signature in black ink, appearing to read "Larry J. Miller". The signature is fluid and cursive, with the first name "Larry" being the most prominent part.

Larry J. Miller
Vice-Chairman, President, and CEO

CODORUS VALLEY BANCORP, INC.
CONSOLIDATED FINANCIAL HIGHLIGHTS
Unaudited

	Year ended December 31,		
	<u>2011</u>	<u>2010</u>	<u>%chg</u>
Selected financial information			
(dollars in thousands)			
Assets	\$1,012,132	\$957,332	5.7
Shareholders' equity	\$93,242	\$76,539	21.8
Net income available to common shareholders	\$5,319	\$5,228	1.7
Common shares outstanding	4,202,606	4,131,802	1.7
Ratios			
Return on average assets	0.69%	0.67%	3.0
Return on average equity	8.04%	8.12%	(1.0)
Capital leverage	9.62%	8.81%	9.2
Per share information			
Net income per common share, basic	\$1.28	\$1.28	0.0
Net income per common share, diluted	\$1.27	\$1.28	(0.8)
Book value per common share	\$16.24	\$14.51	11.9

Common stock & dividend information

NASDAQ Global Market symbol: CVLY

(Stock price is based on the high and low sales price.)

	<u>2011</u>			<u>2010</u>		
	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>	<u>\$high</u>	<u>\$low</u>	<u>\$div</u>
First quarter	11.23	9.30	0.080	7.40	5.00	0.030
Second quarter	11.25	10.02	0.090	9.15	6.70	0.060
Third quarter	11.00	8.75	0.090	8.51	7.05	0.080
Fourth quarter	9.75	8.23	0.090	9.50	8.03	0.080

Nasdaq market makers

Boenning & Scattergood, Inc. 1-800-842-8928

RBC Wealth Management 1-800-344-4413

Stock transfer agent

Wells Fargo Bank, N.A. 1-800-468-9716

(www.wellsfargo.com/shareownerservices)

Shareholder inquiries

Shareholder contact line 1-717-747-1519
1-888-846-1970 ext. 519

Additional financial information is available via the Internet:
www.peoplesbanknet.com
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